

**THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2018-257-WS

IN RE: Application of Kiawah Island Utility,)	DIRECT TESTIMONY
Inc. for Adjustment of Rates and)	
Charges and Modifications to Certain)	OF
Terms and Conditions for the Provision)	
of Water and Sewer Service)	MUJEEB HAFEEZ

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Mujeeb Hafeez. My business address is 12535 Reed Road, Sugar Land,
3 Texas.

4 **Q. WHAT IS YOUR CURRENT POSITION?**

5 A. I am employed by SouthWest Water Company ("SouthWest") as an Accounting
6 Director. In this role, I am responsible for the accounting and financial reporting
7 functions within SouthWest and its subsidiaries, including Kiawah Island Utility, Inc.
8 ("KIU").

9 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL**
10 **BACKGROUND.**

11 A. My educational background consists of a Bachelor of Science and a Master of Science
12 in Accountancy from the University of Houston. I am also a Certified Public
13 Accountant in the State of Texas. I have been employed by SouthWest since January
14 2018. My responsibilities include the following for SouthWest and its subsidiaries:
15 implementing and maintaining an appropriate system of internal controls, ensuring
16 financial records are maintained in compliance with company policies and U.S.
17 Generally Accepted Accounting Principles ("GAAP"), overseeing the general

1 accounting function, providing technical accounting GAAP guidance and support,
2 overseeing internal and external financial reporting, and coordinating SouthWest's
3 annual external audit. My professional background prior to being employed by
4 SouthWest includes eight years of public accounting experience with
5 PricewaterhouseCoopers, LLP ("PwC"), a multinational professional services firm and
6 one of the "Big Four" public accounting firms. While at PwC, I served audit clients
7 with a focus in the regulated investor owned and private equity-owned utilities industry,
8 including both SouthWest and KIU.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A. The purpose of my testimony is to describe corporate services provided by SouthWest
11 to KIU and the cost allocations of those services.

12 **Q. PLEASE DESCRIBE THE ORGANIZATION OF SOUTHWEST.**

13 A. SouthWest is a private, investor owned company whose subsidiaries provide water and
14 wastewater utility services to customers in Alabama, California, Oklahoma, Oregon,
15 Texas, and South Carolina. SouthWest's business units are grouped under five major
16 business segments:

- 17 1) Suburban Water Systems ("Suburban"), which is a regulated Class A water utility
18 in California;
- 19 2) Texas Utilities, which comprises regulated water and wastewater utilities and
20 related customer service operations throughout Texas;
- 21 3) Southeast Utilities, which represents water, wastewater, and to a much smaller
22 extent operations and maintenance contracts in Alabama;

1 4) Northwest Utilities, which represents regulated water and unregulated water and
2 sewer operations in Oregon; and

3 5) KIU, the water and wastewater utility which is the subject of this proceeding.

4 **Q. PLEASE DESCRIBE THE FUNCTIONS INCLUDED IN CORPORATE**
5 **SERVICES.**

6 A. SouthWest provides shared services more effectively and efficiently than could be
7 provided by the affiliates individually. Using shared corporate services allows KIU
8 access to varied areas of expertise and resources. Corporate shared services include the
9 executive function, finance, human resources (“HR”), legal, and Information
10 Technology (“IT”).

11 **Q. WHAT ARE THE SERVICES PROVIDED BY THE EXECUTIVE TEAM?**

12 A. The executive team consists of four senior executives (the CEO, COO, CFO, and
13 General Counsel) as well two administrative assistants who also assist with providing
14 oversight of the facility maintenance technician and acting as receptionists for the
15 corporate office. The executive team has more than 100 years' collective experience in
16 all aspects of utility operations and brings that experience to bear in providing strategic
17 vision, business strategy, executive oversight, management and overall direction, and
18 the application of best practices to all aspects of the utility operations.

19 **Q. WHAT ARE THE SERVICES PROVIDED BY THE FINANCE TEAM?**

20 A. SouthWest's finance department is responsible for providing policy guidance for all
21 financial functions within SouthWest including accurate and timely accounting for
22 corporate transactions, the accurate and timely preparation of financial statements,

1 preparation of budgets and forecasts, accounts payable, payroll, treasury, cash
2 management, risk management, internal audit, tax, and providing management with the
3 financial information necessary for informed operating and financial decision making.

4 The finance function provides the following benefits to KIU:

- 5 • Accounting: SouthWest's accounting group has extensive experience in regulatory
6 accounting activities and provides guidance and oversight of regulatory accounting
7 at KIU.
- 8 • Insurance: KIU is now included in the SouthWest insurance program and benefits
9 from the consolidated buying power for general liability and other insurance
10 coverages.
- 11 • Treasury/financing: The SouthWest financing team has extensive experience in
12 capital markets transactions and has obtained competitive terms for debt for KIU.
13 In addition, SouthWest's investment grade rating (rated BBB+ with a 'stable'
14 outlook by Standard & Poor's) demonstrates the strength of the credit of the parent
15 and gives KIU access to favorable financing terms. Working with KIU and
16 SouthWest leadership, the finance team also developed a long-term capital plan
17 intended to improve meter reading efficiency and supply redundancy to Kiawah
18 Island.
- 19 • Internal Audit: The audit department assures the establishment and maintenance of
20 strong internal controls and processes, improving the confidence in the efficient
21 operations and financial reporting at KIU.

- Tax: The tax department supports and ensures federal, state, and local tax compliance across the company and provides the required tax accounting. Given the ever-increasing complexities of tax laws, this function is imperative to ensure compliance by SouthWest's business segments. The SouthWest corporate tax team worked closely with the ORS to negotiate a Memorandum of Understanding ("MOU") which specifies the methodology for determining how the savings from changes in the tax rates in the Tax Cut and Jobs Act ('TCJA') will be passed on to KIU's customers. The methodology specified in the MOU has been included in this rate proceeding and is addressed in the direct testimony of Mr. Donald Burkett.

Q. PLEASE DESCRIBE THE SERVICES PROVIDED BY THE HUMAN RESOURCES DEPARTMENT.

A. SouthWest's HR department is responsible for employment policies, practices, and employee-related matters, arranging for both company- and employee-paid benefits such as medical, dental, vision, life, and disability insurance, and for managing the company's workers' compensation obligations. The HR function ensures necessary compliance with laws and regulations and also uses its developed relationships to negotiate and obtain the best pricing for employee benefits. Establishing appropriate employment policies, practices, and benefits are critical components of employee retention. The management of employee turnover has a direct positive effect on costs. By fulfilling a function otherwise provided by KIU employees, SouthWest's HR specialists allow KIU's staff to focus on providing water and wastewater services.

1 Since KIU's acquisition by SouthWest, KIU's employees have been included
2 in the SouthWest benefits plans, and those benefits provide significant improvements
3 as compared to the benefits plans at KIU prior to the acquisition. Also, during 2017 and
4 2018, the SouthWest HR function, working closely with KIU management, conducted
5 compensation surveys to determine the appropriate level of compensation to better
6 attract and retain employees at KIU and adjusted compensation of KIU employees
7 accordingly. Additionally, beginning in 2019, improvements were implemented to the
8 401k and health insurance plans.

9 **Q. PLEASE DESCRIBE THE SHARED SERVICES OF THE LEGAL TEAM.**

10 A. SouthWest's legal team is responsible for corporate governance; transactional,
11 employment and real estate law; litigation, general legal affairs and management of
12 outside counsel. KIU benefits from being able to access SouthWest's legal department
13 on an efficient part-time basis.

14 **Q. PLEASE DESCRIBE THE SHARED SERVICES OF SOUTHWEST'S**
15 **INFORMATION TECHNOLOGY FUNCTION.**

16 A. The SouthWest IT group provides various services to KIU, including in the areas of
17 Infrastructure and Cybersecurity and applications for Customer Services. Since the last
18 rate case, improvements in Infrastructure and Cybersecurity, include the
19 implementation of enhanced system backups for customer and operational data to
20 support business continuity objectives, the upgrading of hardware and network
21 boundaries with modern technology to address cyber security threats, the
22 implementation of improved reporting for meter reading that includes 13 months of

1 reads on the customer bill, and the provision of new computer technology to KIU
2 employees to assist with their job performance, satisfaction, and the level of customer
3 service. Additionally, KIU was connected to SouthWest's Wide Area Network and
4 computer applications which allow for future technology enhancements like AMI
5 meter technology and data processing to provide more frequent and detailed usage
6 information to customers and Customer Service. The IT function also accomplished
7 the conversion of KIU customers to the SouthWest billing system (in SAP) which
8 provides enhanced customer payment options including credit card, ACH (eCheck),
9 and paperless billing.

10 **Q. PLEASE DESCRIBE THE CORPORATE COSTS THAT ARE ALLOCATED**
11 **TO SOUTHWEST'S BUSINESS SEGMENTS.**

12 A. Allocated costs are those indirect corporate costs that benefit all SouthWest business
13 segment operations and that are so general as to require prorations based on a
14 combination of pertinent factors. The total costs for all of SouthWest's Corporate
15 Services in the 2017 test year were \$13,403,864, of which \$697,001 was allocated to
16 KIU. However, KIU is only requesting recovery of \$410,000 in this case. Please see
17 Exhibits MH-1 and MH-2 for a breakdown of those costs by expenditure type and by
18 corporate function, respectively.

19 **Q. PLEASE DESCRIBE THE ALLOCATION METHODOLOGY USED TO**
20 **DETERMINE THE ALLOCATION OF CORPORATE COSTS.**

21 A. The three-factor allocation formula is the underlying allocation methodology used by
22 KIU in its 2016 rate case and follows a methodology approved by the California Public

1 Utilities Commission in its decision 14-012-038 involving Kiawah's California affiliate
2 Suburban. The three-factor methodology is used to ensure that corporate costs are fairly
3 allocated to KIU customers in a manner consistent with other segments of SouthWest.
4 The three factors are gross plant, operating expenses, and payroll expenses. Please see
5 Exhibit MH-3 for details of the three-factor calculation. Applying the three-factor
6 methodology to the 2017 test year results in corporate costs allocated to KIU of
7 \$748,625 before adjustments, and \$697,001 after adjustments.

8 **Q. PLEASE DESCRIBE THE CORPORATE COSTS FOR WHICH KIU IS**
9 **REQUESTING RECOVERY IN THIS FILING.**

10 A. In view of the difference between the amount of corporate costs allocated to KIU using
11 the three-factor methodology and the amount of corporate costs allowed in KIU's
12 previous rate case, KIU is requesting less than the amount resulting from the three-
13 factor methodology. KIU is requesting recovery of \$410,000 in corporate costs, instead
14 of \$697,001. Although the level and quality of services provided by SouthWest justify
15 the full recovery of corporate costs, KIU reduced its request to minimize rate impact in
16 this proceeding. KIU may request its full corporate costs in future cases.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes, it does.

DOCKET 2018-257-WS

EXHIBITS MH-1-3

EXHIBIT MH-1 - COSTS BY EXPENDITURE TYPE

Expenditure Type	2017
Salaries & Wages	\$ 7,020,253
General & Administrative - Other	2,709,715
Employee Benefits	1,236,503
Professional Fees	778,159
Payroll Taxes	470,776
Lease Expense	333,038
Repairs & Maintenance	237,309
Travel & Entertainment	229,989
Other Employee Costs	174,756
Taxes - Other	121,304
Insurance Expense	91,511
Vehicle Expense	550
Total	\$ 13,403,864

EXHIBIT MH-2 - COSTS BY CORPORATE FUNCTION

Function	2017
Information Technology	\$ 5,058,023
Executive	3,729,342
Finance	3,107,722
Human Resources	704,771
Facilities	616,068
Legal	187,939
Total	\$ 13,403,864

EXHIBIT MH-3 - T FACTOR ALLOCATION

Business Unit	Factor 1: Direct Operating Expense 2017 Actuals		Factor 2: Payroll 2017 Actuals		Factor 3: End of Year Gross Plant Recorded YE 2017		3 Factor %	
	Amount \$	%	Amount \$	%	Amount \$	%	Total	Average
Suburban Water Systems	47,802,958	49.9%	8,750,411	39.9%	277,252,610	39.4%	129.2%	43.1%
Northwest Utilities (a)	2,270,057	2.4%	445,698	2.0%	16,539,198	2.4%	6.8%	2.3%
Texas Utilities	29,731,754	31.0%	8,640,187	39.4%	258,100,327	36.7%	107.1%	35.7%
Southeast Utilities	10,769,963	11.2%	3,394,522	15.5%	101,835,665	14.5%	41.2%	13.7%
Kiawah Island Utility	5,210,265	5.4%	711,223	3.2%	49,935,969	7.1%	15.7%	5.2%
TOTAL	95,784,996	100.0%	21,942,041	100.0%	703,663,769	100.0%	300%	100.0%

Notes:

(a) As Northwest Utilities were acquired in June 2017, operating expense and payroll represent 12 month actuals from June 2017 to May 2018